

Release No. 0033.98

Remarks

of
Secretary Dan Glickman
Proposed Federal Milk Marketing Order Reform
Washington, D.C. -- January 23, 1998

Good morning. Before I get to the details of where this Administration would like to take dairy policy reform, I want to thank our team: Mike Dunn, Assistant Secretary for Marketing and Regulatory Programs, Keith Collins, our Chief Economist; Enrique Figueroa and all the folks at the Agricultural Marketing Service.

They devoted thousands of hours to tackling the most complex, controversial, intractable farm debate of our time: how to come up with a rational, fair dairy policy for the modern world. They've done an excellent job under difficult circumstances.

Anyone who's followed the dairy debate knows that this is a highly complex, regionally divisive, politically explosive issue. But it is one we must address. We have an outdated 60-year-old dairy program. There are serious structural changes underway which have cut the number of dairy farms in half -- every decade going back to the 1950s.

At the same time, milk production in the United States is eight percent higher than it was a decade ago which tells us that the dairy industry is in the grip of a trend toward fewer and larger operations that we see throughout agriculture. It also tells us that the status quo for milk marketing orders isn't helping a whole lot.

We have broad agreement in theory that milk marketing orders need to reflect today's economic realities; that they need to move -- as all farm policy is -- toward greater market orientation; but retain a strong federal role that ensures a regular, reliable supply of milk across the country. But the devil is in the details. When we get to specifics, all that consensus falls apart.

As soon as you get into concrete proposals, things quickly devolve into: who wins and who loses? Which regions of the country get a bump up and which a bump down? I will not engage in that debate today.

I was asked by Congress not to get rid of milk marketing orders ... not to come up with a massive, new support program, but to reform and consolidate the orders which is the proposal I give you today.

-more-

We have a package of reforms. They streamline the orders from 31 to 11. They move the industry toward greater market orientation and offer help to dairy farmers in making the leap.

We replace the Basic Formula Price to better reflect the true value of milk. The current formula is based on the Minnesota-Wisconsin price of manufacturing-grade milk which is less and less an accurate gauge of the national market. Our new formula would be based on the weighted price of the various components of milk. Based on our calculations using recent years, we expect the new formula to yield a price that's slightly higher than what the old formula would have provided.

We are also setting out two proposals to alter the Class I differential for milk. This is the regional adjustment in the price of fluid milk that's added on top of the Basic Formula Price which is the same across the country.

Option 1A is a largely stay-the-course approach that reflects the status-quo pricing structure.

Option 1B, which is preferred by this Administration, modernizes the Class-I differentials to allow market forces to have more sway. We used a detailed economic model and the most current data to pinpoint how free markets would price milk in different parts of the country -- for example, taking into account transportation costs to areas of the country where there's little milk production. So we're moving toward a more market-oriented approach while keeping the basic structure of the orders as our foundation.

This proposal is not likely to cause anybody to stand up and cheer. In some areas of the country, like the Upper Midwest, the average differential will go up. We'll probably hear it's not enough. In other parts of the country, it will dip and some folks won't be happy. But generally, the changes are not very drastic. In fact, most producers will see less than a one percent change in their milk price.

But we recognize that there may be difficulties in pockets of the country. Our proposal lays out three options to help farmers make this transition: One is a straight, five-year phase-in of the new price surface -- the new regional variations in prices. The other two options provide different degrees of economic assistance to help farmers adjust to this more market-oriented approach.

Since this help wouldn't be an option until our reforms are finalized which we hope will be in early 1999, I would also like to announce today that on February 17, USDA will hold a national hearing to consider a temporary floor on the Basic Formula Price for Class I and II milk to provide some stability in the markets during the remainder of this reform process.

So we're aiming to shore up the long-term viability and strength of this industry by moving it toward greater influence of market prices in determining consumption and production. But we are also dealing with current realities. This is a big change. We cannot expect farmers to make it overnight. There has to be a transition, and government has to help provide stability.

We need to think hard about the option of a temporary price floor; we need to think hard about what kind of transition assistance is appropriate. But we need to move the dairy industry in the same direction that the rest of agriculture is moving -- toward a more market-oriented environment that maximizes farmers' chances to succeed in a new, globally competitive world.

Our proposal gives America a more reasonable, contemporary dairy policy. Some folks will say it doesn't go far enough. Others will say it's too radical. That tells me that I'm in the right vicinity. But I invite everyone into this debate.

Henry Kissinger once said, 'competing pressures tempt one to believe that an issue deferred is a problem avoided; more often it is a crisis invented.' We have a real chance to avert a crisis and create a real opportunity here. But it will require all of us to wade through what has been a highly emotional issue and achieve some national consensus. We owe that to America's dairy farmers.

This Administration is committed to their success. From helping increase dairy exports; to expanding the use of dairy products in our nutrition programs; to shifting to a new survey of cheese prices that improves the Basic Formula Price; to launching a major effort to help small farms; this Administration is aggressively trying to expand opportunities for dairy farmers.

Looking around us today, we know that our work is not yet done. This proposal is a sound, bold start for what I hope will be a great national debate on the future of U.S. dairy policy. Today, I am sending a letter to every member of Congress seeking their help in getting folks in their state involved. I want to hear from dairy farmers, fluid milk processors, cooperative association leaders, consumers, dairy product manufacturers -- everyone with an interest in these issues. You can find all the addresses and phone numbers in the press release. Now, I'd like to turn things over to Assistant Secretary Dunn for a few words on the process that got us where we are today.

#

NOTE: USDA news releases and media advisories are available on the Internet. Access the USDA Home Page on the World Wide Web at <http://www.usda.gov>